

## Corporates need to hard sell strategy to their people

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When David Norton and Robert Kaplan introduced the Balanced Scorecard (BSC) as a strategy execution tool some 20 years ago, four American companies adopted the idea and implemented it very successfully. Besides the fact that they were pioneering a system that is now used by every major global company, Mobil Oil, Chemical Bank, Cigna and Brown & Root had something else in common at that point — they were all led by CEOs with military backgrounds. Coincidence ? "Not really," says Norton. "The BSC fits the military . In a military operation, an officer who goes into the field may not return. But the operation has to go on. So people down the line need to know the strategy being deployed."

In the corporate world, on the other hand, those on the front line don't always know company strategy, though they're the ones responsible for implementing it. The BSC, along with Kaplan & Norton's follow up tool 'strategy maps' , is meant to turn vision into action and provide daily marching orders to the corporate soldier. It does so by describing strategy in terms of measurable targets, so that execution can be monitored. But first, it helps create organisation-wide alignment around strategy, which is a challenge in itself. "There is often a remarkable lack of consensus , even among top managers, as to what the firm's strategy is. There is disagreement on how return on capital should be calculated and on who the customer really is. The first step is to agree on the fundamentals," says Norton.

The BSC concept was born at a time when budgeting and management by objectives ruled management thought. A company's value was then based largely on its tangible assets and all systems were geared towards financial targets (the 'balanced' in BSC is to do with balancing financial measures with other measures). But it was also a time when Japanese ideas such as total quality management were gaining ground and non-tangible assets were starting to play a larger role in determining a company's shareholder value. "We were moving from the product economy to the knowledge economy and the BSC proved to be a very effective tool for the new age," says Norton.

Kaplan, a professor at Harvard Business School, and Norton, a consultant with a PhD from Harvard, hold no copyright on the BSC, though have remained associated with the idea, authoring numerous academic articles and five books on it over the years, the latest of which is *The Execution Premium: Linking Strategy To Operations For Competitive Advantage*. Meanwhile, numerous consulting firms and software companies have built businesses around the BSC platform, turning into what Harvard Business Review calls 'one of the most influential management ideas of the past 75 years.'

Of course, letting an idea go into the universal domain is not without its risks. "I'd say only 30% of those who use the BSC actually use it as we described," says Norton, whose consulting firm, Palladium, promotes his ideas worldwide. "Some companies see it purely as a measurement tool, a way to create KPIs (key performance indicators). It gets used by engineers and middle managers, not the CEO. On the other hand, it is now being used by governments in Brazil, Philippines, Abu Dhabi, to execute developmental strategies. The BSC is about strategy execution, about results."

Strategies, says Norton, are of three kinds: those based on innovation (Apple, Tata Motors), those based on customer relationships (IBM, Infosys) and those based on costs. But how does a global corporate with multiple business units formulate a common strategy? Here, Norton presents the example of Bank Of Tokyo, which created a broad 'strategy map' at headquarters and then sent it out to its 14 strategic business units (SBUs), asking them to choose those parameters that they thought should be standardised across the organisation and those that might be specific apply to them. The feedback helped frame organisation-wide parameters and the initiative also earned Bank Of Tokyo buy-in from all its SBUs. "Strategy is about change, and that's never easy," says Norton, "The leadership has to have a strategy and see to it that it is executed. But CEOs really have a hard time influencing change in their organisations."

Strategy is formulated by the Board, executive leadership and senior management, with inputs from shareholders and analysts, but it has to be executed by the line management and front line staff. Good organisations also share their strategy with customers, suppliers, regulators and society. This communication, says Norton, can be viewed as an advertising exercise. You begin by selecting the target audience you want to reach and then let loose a stream of messages through various communication channels, ranging from brochures to videos to mouse pads with strategy maps. "It works at a subliminal level," says Norton. "You have to tell them seven times in seven different ways: try my new strategy, you'll like it. Less than 20% of Mobil Oil's workforce understood strategy when it started using BSC. After the communication exercise, Mobil did a survey and found 80% understood it." This month, at a function organised in Mumbai, Norton inducted Reliance Industries into the Palladium Hall Of Fame, an honour reserved for those who have effectively used the BSC. In his acceptance speech, HS Kohli, executive director in charge of the Reliance Hazira manufacturing division, talked about how he meets groups of employees at every level to discuss strategy. "We have 3,000 people at Hazira and I meet at least 600 of them face to face to discuss my strategies and get their feedback. It is an effective way to get buy-in," he says.

Sometimes, front line employees are disengaged and simply not interested in learning about company strategy. Some employees may be totally focused on their jobs and indifferent to the larger picture. It is still in the company's interest to reach out to all employees since alignment amplifies the power of strategy. Southwest Airlines, for example, wanted all its employees to know that their prosperity is tied to the company's prosperity. So it created an animated video with characters like Nick (for net income) and Marge (for margins), which was viewed by employees in groups. This would be followed by discussions on what could be done to enhance the airline's profitability.

Then there's the question of whether strategy should be communicated to union employees. Given the mistrust that exists between management and unions, many organisations hesitate to take strategy to workers. Here, Norton again presents the example of Mobil Oil, where the management brought its truck drivers into the BSC fold: "Truck drivers are a direct link to Mobil customers, since they use most of the company's products. Once they were privy to strategy, they began to give suggestions that went into product development . Earlier, Mobil's products were pushed into the market by R&D scientists. Now the company has a ready source of customer feedback. The results of communicating strategy throughout the organisation can be remarkable."

One way to get employees interested in strategy is to link their incentives to execution. The BSC can have anything from six to 20 target measures on which organisational units are evaluated and individual bonuses can be linked to these targets . Norton tells the story of a corporate manager who once received a call from the wife of one of his employees, asking how his team was doing on the industrial safety target: "She was planning the family vacation around her husband's bonus. Her husband had 16 BSC performance parameters and she was tracking all of them. When compensation is involved, everybody pays attention."

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